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U.S. DEPT. OF AGRICULTURE  
NATIONAL ECONOMIC ANALYSIS DIVISION

# CASH GRAIN PRICING IN 1974--A PRELIMINARY REPORT

by

MAR 7 1977

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## INTRODUCTION

To find ways to improve Grain Market News reporting, the U.S. Department of Agriculture (USDA) recently conducted a study of cash grain pricing. The data were collected by the Statistical Reporting Service and analyzed by the Economic Research Service and the Agricultural Marketing Service. More than 2,600 grain handlers provided information for the study. This is a preliminary report to these cooperating firms, highlighting the major findings. A detailed report will be issued in 1977 to make the results fully available to the public.

Two interrelated systems facilitate the flow of grain from farms to final users. The physical system provides conditioning, handling, storage, and transportation services. The exchange system establishes prices for grain bought and sold under diverse conditions with respect to quality and time and place of delivery. The exchange system consists of the cash market and the futures market. The futures market is highly visible; grain futures contracts are traded openly on the organized exchanges at Chicago, Minneapolis, and Kansas City; each price change is recorded and widely disseminated. However, most of the trades that result in actual physical delivery occur in the cash market. The cash market, unlike the futures market, is difficult to observe. It is primarily a telephone market involving large numbers of traders operating from their own offices. The study focused on the domestic cash market, looking at the types of traders involved, the nature of their transactions, and the flow of information among market participants.

## GRAIN TRADING IS DISPERSED

The cash market was found to be highly dispersed geographically. Buyers at the traditional terminal markets (Chicago, Minneapolis, and Kansas City) accounted for only about one-fourth of wheat and one-eighth of corn and soybean cash market purchases from grain elevators and merchants in 1974 (table 1). The wheat trade is somewhat more centralized than the corn and soybean trade. The 10 leading cities in cash wheat purchases accounted for about 60 percent of the total while for both corn and soybeans

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the 10 leading cities accounted for less than half of total commercial purchases.<sup>2/</sup> For all three commodities, the bulk of purchases from country elevators were made by buyers located in the producing areas at such cities as Des Moines, Decatur, Enid, and Hutchinson. Buyers at barge loading points on the Illinois and Mississippi Rivers also accounted for a substantial volume of purchases of corn and soybeans.

#### FORWARD PRICING PREVAILS

Another finding was that the cash market is primarily a market in forward contracts, especially for transactions among grain merchants and processors. About 70 percent of wheat sales and over 80 percent of corn and soybean sales by country elevators to grain elevators and merchants were for later delivery (table 2). And for more than 40 percent of the wheat and more than half of the corn and soybean sales, delivery was deferred by more than 10 days. At the terminal and subterminal elevator level around 95 percent of sales for all three grains were for deferred delivery. Even in purchases from farmers a third of the wheat and about half of the corn and soybeans were priced before delivery (table 3). About 15 percent of the wheat and 20 percent of the corn and soybeans were contracted by farmers more than 30 days before delivery.

The typical elevator sells grain to only a few commercial buyers. About three-fifths of the sellers of corn and four-fifths of the sellers of wheat and soybeans sold more than one-half of their volume to their largest buyer.

Use of futures markets for hedging varied with type and size of firm. Over three-fourths of the terminal and subterminal elevators hedged either routinely or occasionally in 1974, while only 46 percent of the country elevators used the futures market for hedging. About two-thirds of the establishments with over 1 million bushels of storage space hedged, while only 40 percent of the smaller establishments used futures markets in this way.

Interviews with cash grain traders revealed that futures quotations play an important role in cash grain pricing. Cash grain traders follow futures market developments closely each day by use of radio, teletype, and other market news services. About one-third of the country elevators and two-thirds of the terminal elevators frequently specify price in sales agreements in terms of the "basis," the difference between their cash price and the price for a specific futures contract.

Direct telephone contact with other traders was the primary source of information used by buyers and sellers in making pricing decisions. Radio was also an important source of price information, particularly for obtaining futures price quotations at the country elevator level. Many of the larger elevators subscribe to commercial commodity news services. Published reports of the USDA and newspapers were also found to be important sources of information, particularly for firms above the country elevator level.

#### BETTER FORWARD PRICE REPORTING NEEDED

In summary, the U.S. commercial cash grain market is a dispersed market with most sales made to buyers located away from the major terminals. It is primarily a market in contracts for deferred delivery; these are entered verbally by telephone and followed by written confirmation. The typical country elevator sells to only a few buyers and relies upon telephone contact with buyers, along with radio and teletype reports of futures prices as sources of information for making pricing decisions. Much of the basic information needed by traders is assembled by AMS and distributed to users by commercial services.

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<sup>2/</sup> The 10 leading cities in wheat purchases were Minneapolis, Kansas City, Portland, Enid, Hutchinson, New York, Great Falls, Salina, Omaha, and Houston. For corn the leading cities were Des Moines, Minneapolis, Kansas City, Decatur, Chicago, Omaha, New York, St. Louis, Peoria, and New Orleans. For soybeans the leading cities were Kansas City, Des Moines, St. Louis, Decatur, Minneapolis, New York, Indianapolis, Cedar Rapids, Toledo, and Bloomington.

These findings indicate that Grain Market News reports provide useful information to the grain trade. They suggest that more emphasis should be placed on reporting prices outside the traditional terminal markets. More attention should be given to reporting prices for deferred delivery rather than spot delivery and the delivery periods involved should be specified in the reports.

Table 1--Purchases of corn, wheat, and soybeans from elevators and merchants by location of buyer, 1974

Location of buyer	Corn	Wheat	Soybeans
	<u>Million bushels</u>		
Selected cities			
Chicago	121	5	28
Minneapolis	238	392	72
Kansas City	187	230	93
Subtotal	546	627	193
River points	400	91	133
Other interior points	1,968	934	845
Coastal points	327	446	129
Unspecified and foreign	913	383	277
Total	4,154	2,481	1,577

Table 2--Corn, wheat, and soybeans sold by country elevators to grain elevators and merchants, by time of delivery relative to sale, 1974

Time of delivery, days after sale	Corn	Wheat	Soybeans
	<u>Percent of bushels sold</u>		
Same day	12	30	16
1-10	30	27	30
11-30	34	27	34
31-60	14	11	10
More than 60	10	5	10
Total	100	100	100

Table 3--Corn, wheat, and soybeans purchased from farmers, by time of delivery relative to purchase, 1974

Time of delivery, days after purchase	Corn	Wheat	Soybeans
	<u>Percent of bushels purchased</u>		
Same day	37	49	40
1-30	35	19	29
More than 30	20	14	20
Delayed pricing <u>1/</u>	8	18	11
Total	100	100	100

1/ Price established after delivery.

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WASHINGTON, D.C. 20250

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